



## Council of Social Service of New South Wales

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Independent Pricing and Regulatory Tribunal  
2009 Review of Taxi Fares in NSW  
[ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

Dear Sir or Madam,

The Council of Social Service of NSW (NCOSS) would like to thank you for the opportunity to comment on the IPART 2009 Review of Bus Fares in NSW.

NCOSS is an independent non-government organisation (NGO) and is the peak body for the non-government human services sector in NSW. NCOSS works with its members on behalf of disadvantaged people and communities towards achieving social justice in New South Wales. It was established in 1935 and is part of a national network of Councils of Social Service, which operate in each State and Territory and at Commonwealth level.

### Summary

NCOSS accepts that the methodology proposed by IPART will deliver a fare determination that balances the interests of the various stakeholders as well as roughly calculating the external benefits and the reasonable level of subsidy paid by tax payers via the Government, given the structure of the system with which we are working. NCOSS does not, however, support the proposal by IPART that continuing with the existing framework for fare setting is helpful when there is the potential for a shift to an integrated ticketing system and/or a zone and time based system. NCOSS believes that IPART should be facilitating this shift, or helping to understand this potential shift, not working to maintain the existing framework without understanding if this is the best framework to use.

NCOSS notes that the consultant makes the point that a calculation of the value of the externalities derived by using the bus system is only necessary because of the relationship between road pricing and public transport pricing policies. In effect we need to calculate the subsidy necessary to enable public transport to compete with private transport in the presence of a subsidy to private road transport. There is clearly inefficiency in using this double subsidy and a market distortion which is difficult to undo.

NCOSS broadly accepts the work done by the consultant to value the external community benefits provided through the use of public buses. If this estimation is used, it will provide a reasonable basis for a fare determination and the level of tax-payer subsidy. It is noticeable, however, that the consultant can only identify externalities related to traffic congestion and air pollution.

NCOSS believes that the omission of a valuation of social inclusion, of a reduction in road crashes and a valuation of urban planning and integration as externalities is because there

are flaws in the conceptual framework underpinning the calculations of the externalities. NCOSS recommends that this be further investigated.

NCOSS recognises the work done by IPART over a number of fare and price determinations to build an understanding of how the use of public transport provides external (external to the individual ticket purchaser) community benefits and how this should be valued and included in the price of a ticket as a subsidy. In particular NCOSS has welcomed the willingness of IPART to attempt to include a valuing of 'social inclusion' as part of the externalities paid by subsidy in the 2009 City Rail fare determination, even though it was acknowledged that it is extremely difficult to value social inclusion and the valuation was small.

NCOSS also welcomes the interest that IPART has shown recently, in the 2009 electricity pricing determination, to make a recommendation to the NSW Government regarding the level of price concessions or subsidies provided by the Government to protect those on low, fixed-incomes to ensure that there is no erosion of their real incomes. We hope that IPART can make similar recommendations at all future fare and price determinations. We have advocated that IPART make similar recommendations for the 2009 taxi fare determination especially regarding the effect of taxi fare rises on community transport services which use taxis as a core part of their service provision.

NCOSS recommends against a multi-year determination or deciding on a final framework for the methodology at this determination. NCOSS recommends yearly determinations, using a simpler methodology, for the near future. For all the reasons that IPART set out in the discussion paper, a multi-year determination would be efficient and sensible in general circumstances - these IPART hearings are a significant drain on NCOSS resources and reducing the number of determinations would be welcome. But there are events in process now, and predicted for the near future, which will affect the way in which transport is used, organised and priced. These things include:

- The Carbon Pollution Reduction Scheme and other energy use programs
- The Global Financial Crisis and Recession
- The 2011 State Election
- The introduction of integrated ticketing
- A change in the way in which fares are structured (zones, time, distance)
- The need to pay for new capital infrastructure such as the Metro
- The creation of a transport 'super department'.

Any or all of these events could have profound effects on the way in which we want to price our public transport tickets. At this stage it would seem more prudent to simply increase bus tickets in line with CPI and re-evaluate how to set the fares when integrated ticketing is introduced.

It would be appreciated if IPART could assist in the move to an integrated system and assist with an evaluation of a potential change to a zone and time based system.

## Answers to the Questions Provided By IPART

**1. Is it reasonable for IPART to focus on the four largest contract regions as the foundation for estimating the costs and benefits of bus services?**

IPART has provided us with advice in the discussion paper that, if a determination is based upon research done examining the largest 4 contract areas, then the result is likely to be skewed in the direction of a lower unit cost valuation and a higher externality valuation. It does seem odd to do this when so much of the system is provided by private bus operators with different cost structures.

We can only use the advice that IPART have provided us and, if this advice is correct, and given that NCOSS is mostly concerned with improving social inclusion and sustainability, this would be a position NCOSS can support. Our only caveat would be this; it would be a poor result if using this skewed data set leads to a decrease in service levels or standards in either the STA areas or those areas contracted to non-government service providers.

**2. Should IPART consider a broader set of contract regions in its review of the costs and benefits of bus services? If so, which additional contract regions should IPART include?**

**3. What is the appropriate length for the fare determination?**

A multi-year determination would be efficient and sensible in general circumstances but there are things that are happening now, and predicted for the near future which will affect the way in which transport is used, organised and priced.

- The Carbon Pollution Reduction Scheme and other energy use programs
- The Global Financial Crisis and Recession
- The 2011 State Election
- The introduction of integrated ticketing
- A change in the way in which fares are structured (zones, time, distance)
- The need to pay for new capital infrastructure such as the Metro
- The creation of a new transport 'super department'.

Any or all of these events could have profound effects on the way in which we want to price our public transport tickets. At this stage it would seem more prudent to simply increase bus tickets in line with CPI and re-evaluate how to set the fares when integrated ticketing is introduced.

As integrated ticketing is introduced the way in which tickets are marketed, priced and sold may be quite different than they are now. It may be possible to imagine public transport tickets in terms of buying a ticket to the public transport 'system' rather than to the individual components of the system.

In this way pricing and marketing can be more strongly related to the needs and interests of consumers as well as the social policy interests of the Government. As White (2009) asks "What product are we selling?" (p149). Consumers may be able to imagine that they are buying access to the 'system' when they purchase a ticket rather than buying a particular journey. The way in which ticket pricing and the setting of concessions is done may be quite different if these innovations come to pass.

For all these reasons, NCOSS recommends against a multi-year determination at this time.

**9. Is it appropriate to determine the share of costs to be borne by taxpayers based on the external benefits approach? What are the advantages and disadvantages of this approach?**

Valuing externalities and allocating these costs to the taxpayer seems to be the correct approach, given the system being used, and has been providing reasonable determinations. While NCOSS agrees with the valuing of externalities and the calculation of efficient costs, it is not as clear that, moving into the future, IPART should be price setting using the same methods as they do now.

Public Transport fare pricing and road pricing are tools which Governments can use to achieve policy aspirations. With the proposed creation of a NSW Transport 'Super Department' pricing coordination across all modes of transport seems much more viable than it did before. It also seems likely that in the near future people will be considering different ways to price energy use, and in particular, carbon-based energy. It is likely that these considerations will affect Government policy and the interests, desires and aspirations of citizens/consumers. Pricing should be intimately connected with marketing so that prices can be matched to product development, social policy aspirations, demand and supply. IPART may not be the best placed organisation to perform this role into the future.

It isn't considered in the IPART discussion or mentioned by the consultant, but work by the Transport Data Centre tells us that in 2001/02, between 5 and 10% of bus customers say they catch the bus for environmental reasons. This type of phenomenon is also happening in other sectors, people are willing to pay a premium for 'green' energy solutions and this is likely to increase. The Government already recognises this when they advertise that STA buses run "cleaner" on gas. This is not an argument to increase fares to include a 'green' premium, it is an argument which points out that things are changing and that the way in which fares are calculated and priced will probably need to be reviewed.

**10. Are there other external benefits of bus services that IPART should take into account?**

**11. What should be done about the externalities that are not readily quantifiable?**

NCOSS did some preliminary survey work with NSW MPs and MLCs on the topic of why they think the Government subsidises public transport. Given that these MPs and MLCs are the people who approve the budget, it seemed a reasonable connection to make and the results seem to indicate that, probably like the rest of the population, they have a broader range of 'externalities' in mind than the economic analysis provided to IPART suggests.

The question asked was: "Why do you think the NSW Government subsidises the public transport bus network? Please rank these answers in order of importance (1 is most important, 5 is least important)".

The MPs and MLCs ranked the answers in this way:

(Most Important to Least Important)

1. Reduces Traffic Congestion
2. Improves social welfare through social inclusion

3. Facilitates integration of land use and transport strategies
4. Reduces air and noise pollution
5. Reduces road death and trauma

The policy objectives that most people think about when they advocate for the provision of public transport are things like, to provide the means for people to participate in the economy of the city, to get to work, and to create a more 'connected', 'liveable' city which encourages social inclusion. And while 'reducing traffic congestion' is the most readily measurable component of creating a 'liveable' city - it is only one component.

The Transport Data Centre study from 2001/02 notes that:

*"62% of bus users said lack of access to a private vehicle (not owning a car or car being used by someone else) was the main reason they travelled to work by bus. These reasons were given equally by State Transit and private bus users."  
Transport Data Centre, p 6.*

This result has obvious implications for social inclusion as well as for an integrated land-use and transport policy. If all these people catch the bus because of lack of access to a car, what would happen if they could not catch the bus? Would they either have to find a way to use a car or not do what they are doing?

## **Social Inclusion**

NCOSS does not agree that the benefits of social inclusion accrue solely to the individual. The 2009 CityRail IPART determination did include a valuation of the external benefits of social inclusion but acknowledged the difficulty of determining this value. We are unaware of any methodology used to calculate the valuation used in that determination. It does, however, need to be done if we are to understand the cost structure of public transport fares. Social inclusion is a cost for which people are prepared to pay.

Why does the Government provide pensioners with \$2.50 excursion tickets? Because the community believes it is important for pensioners to be able to participate in the life of the city. I doubt that people are imagining this in terms of reducing traffic congestion. The Government provides this benefit because they believe that it is a social good and provides value to the whole community, not just to the people involved. It is not a benefit enjoyed solely by the ticket purchaser.

Recently Sydney City Council introduced the Village to Village bus, for which Sydney City pay the entire costs and receive no farebox revenue. Using the idea proposed by IPART, that the subsidy represents the external benefits, this is how the City of Sydney imagine the benefits of using the Village to Village:

*The Village to Village bus services are operated by South Sydney Community Transport and run every Thursday and Friday, providing free travel for transport-disadvantaged residents to access health services, shopping and community facilities. The shuttle bus services provide accessible transport connections between village hubs that are not catered for by direct public transport links.*

*The shuttle bus initiative contributes towards the City's Sustainable Sydney 2030 vision of providing community interaction and social opportunities for isolated*

*community members and a more integrated transport network by improving access to other bus services and train stations.*

The entire logic behind this project is about social inclusion and creating a better connected city and is a cost for which Sydney City Council believe people are prepared to pay.

### **Road Trauma.**

The consultant themselves notices that the advice they have provided regarding the externalities related to road trauma is “counter intuitive”. The consultant begins with, “By reducing automobile usage, buses reduce the likelihood of traffic accidents” (p55), but ends with, “the marginal external benefit from an incremental increase in bus patronage is too small to measure reliably” (p56).

NCOSS agrees that this is a counter intuitive result and suggests that this result needs to be researched further. The logic path provided by the consultant leads us to the unlikely proposition that there is no measurable community benefit received by a reduction in road crashes, crash trauma and death which can be valued in the cost of bus tickets.

Evidence provided by the Public Transport Users Association (PTUA) to the current tax enquiry points us in a different direction. The PTUA study estimates that there is a \$7b (for Australia) shortfall between the value of insurances paid and the costs attributable to road crashes. The IPART consultant does not seem to disagree with this but is able to find ways to discount this \$7b.

This PTUA study also corroborates the inverse connection between the cost of road trauma to the community and the amount of public transport provided. By graphing the relationship between traffic deaths and per capita vehicle miles and between traffic deaths and per capita transit miles they are able to say:

*“The frequency of crashes increases with the amount of driving undertaken (Litman 2008b). A reduction in vehicle use can be expected to lead to a reduction in road trauma. Consistent with this, fatality rates tend to be lower in cities where a larger share of journeys is made by public transport ...” PTUA p 12.*

NCOSS suggests that this needs further study and does not support the conclusion provided by the consultant regarding road trauma.

### **Integrated Land Use and Transport Planning. A Livable City Is Attractive.**

Apart from the personal benefits of creating a liveable city there are obvious economic reasons that provide benefits to everyone; the city relies on attracting capital and high value labour to the city. It is by attracting capital and labour that enables the city to flourish and grow and in the current, competitive world. Providing a liveable city is crucial in that competition for capital and high-value labour. It is noticeable that when NCOSS surveyed the MPs that they rated this external value as 3<sup>rd</sup> most important. A good bus system contributes to making a liveable city. The consultant, however, believes that this value is insignificant so ‘liveability’ and ‘facilitating an integrated land-use and transport policy’ does not appear as part of the externalities valued.

House pricing is probably a reflection of the valuing of integrated land-use and transport planning. It is a well-known effect that a property close to transport is of a higher value than those without transport. This value, however, is not necessarily enjoyed by the transport user. Any Real Estate agent can tell you “close to transport” is a selling point. It is likely that people living next to a transitway will enjoy considerable capital benefits because of the presence of the transitway. Is this an external benefit provided through the purchase of a bus ticket?

### **13. How should IPART take account of the likely implications for affordability and patronage in its fare decisions?**

This is more a question about the Government’s social policy goals and how the level of the fare works to achieve those social policy goals. The State Government has a number of policy goals around achieving journey to work targets and the proportion of total journeys taken by public transport. IPART decisions should consider these social policy goals and advise everyone on how any IPART decision will affect progress to these goals.

Concessions fare pricing will be important with regard to social inclusion outcomes. NCOSS believes that IPART has a role to play advising the Government on the differential effects of fare changes to different people. NCOSS advocates for policy positions which improve social inclusion and would appreciate advice from IPART which describes how fare changes will effect social inclusion.

At the most basic level, if basic, single journey concession fares rise faster than the incomes of people on fixed incomes such as pensions or unemployment benefits, then more of the real incomes of those people will be used up in transport costs. NCOSS would obviously see that as a negative outcome.

### **14. Should Newcastle fares be harmonised with fares in the other bus contract regions?**

Fare harmonisation is important and, while it is not relevant to this enquiry, has been nominated by the NCOSS Transport Policy Advice Group as a priority to achieve for people in non-metropolitan areas.

Most transport advocates would like to see a harmonisation of the public transport fares in NSW but most would advocate using the zone and time based model from Newcastle; not the other way around. NCOSS advocates for research to be done into a possible shift to a time and zone based system. It is likely that a move away from this model will actually disadvantage the people in Newcastle, but we would like to see some research on this.

It is likely that a time and zone based system will have substantial social inclusion outcomes and strong benefits for people who are on low incomes and travel a lot locally or regionally rather than to the CBD.

### **16. What factors are likely to have the largest effect on bus use?**

There is a huge amount of information available on this topic. The Transport Data Centre has published reports from surveys of bus customers. The Bus industry is more than 100

years old and has an effective advocate in BusNSW (the Bus and Coach Association); they have vast experience on this topic and can advise.

NCOSS agrees that small increases in bus prices do not affect patronage significantly; bus ticket sales are relatively price inelastic. Evidence shows that frequency, reliability and the usefulness of the routes followed by time of operation, connectivity and the quality of the service all appear to be important.

**17. Are recent increases in patronage likely to be a good indicator of patronage changes over the next five years?**

No. The reforms from the Bus Review are not complete and it takes time for people to learn about the system. The last two years have been very disrupted by the changes to the bus routes, the timetables and large fluctuations in the price of petrol. The Government is also working on other projects likely to effect bus patronage like improving bus priority and improving transitways. There is also huge potential to grow patronage for non-STA customers through integrated ticketing, better ticket packaging and by improving the provision and marketing of timetable information.

There is likely to be a much larger increase in patronage than we have seen.

**18. Is a flat flagfall and a per kilometre charge that reflects the fixed and variable costs of providing bus services the most appropriate fare structure?**

No this is a very unhelpful way of allocating costs to fares. It completely misunderstands how a customer wants to use the 'system' and undermines the ability of the 'system' to be integrated and attractive to use.

While thinking about 'fixed' and 'variable' costs may be useful for estimating costs, it is not a helpful way to consider pricing. This thinking prevents the possibility of a change to an integrated system or the possibility of a zone and time based system. Why should one journey incur two flag falls simply because we change modes while another of the same length, without a change of modes, only incur one flag fall? It simply doesn't make sense.

This kind of thinking limits the ability of the 'system' to compete with private transport and, if sustainability, social inclusion and creating a liveable city are policy goals, the system needs to focus on being attractive to customers. It is by creating and marketing attractive, integrated transport products that will attract customers improve the market share of the system and reduce the costs/km of public passenger travel that should be the focus of pricing and cost allocation.

**22. What factors should IPART take into account when considering the social impact of fare options on bus passengers?**

NCOSS believes that IPART has a role advising the Government on the differential effects of fare changes on different people. At the most basic level, NCOSS is concerned about the effect that changes in fares can have on people on the lowest incomes and fixed incomes such as pensions, youth allowance and unemployment benefits. A helpful question that IPART might answer is: In what way will a change in bus fares effect people



on low and fixed incomes and what concession policy should the Government provide to ameliorate any negative consequences to the change in the bus fares?

Of course there are many other social impacts that should be considered and NCOSS believes that IPART should have a role in elucidating the impacts so that people can understand the effects of fare changes. It is beyond the resources of NCOSS, for the purposes of this submission however, to be able to describe the total range of social impacts that are likely from a range of bus fare changes.

If you would like any further information please contact Samantha Edmonds, Deputy Director Policy and Communications on (02) 9211 2599 ext 111 or [samantha@ncoss.org.au](mailto:samantha@ncoss.org.au)

Yours Sincerely



Alison Peters  
Director

#### **Notes**

Using Survey Monkey, 140 MPs and MLCs were surveyed over the between June 5 and June 19, 2009. We received 22 responses. We have no information about who the responses were from or from what political parties they belong. NCOSS acknowledges that this is unlikely to be a reliable sample but is simply used as a guide to how people may be thinking.

Transport Data Centre. 2001/02. Issues Paper 2002/02. December 2002. Bus Users In Sydney.

White, Peter. 2009. Public Transport: Its Planning, Management and Operation. 5<sup>th</sup> Edition. Routledge.